

WASHINGTON

Executive Regis

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SECRET/NF

September 11, 1981

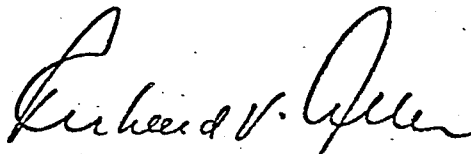
MEMORANDUM FOR THE SECRETARY OF STATE  
THE SECRETARY OF THE TREASURY  
THE SECRETARY OF DEFENSE  
THE ATTORNEY GENERAL  
THE SECRETARY OF COMMERCE  
THE DIRECTOR OF CENTRAL INTELLIGENCE  
THE DIRECTOR, OFFICE OF SCIENCE AND  
TECHNOLOGY POLICY  
THE DIRECTOR, FEDERAL BUREAU OF INVESTIGATION  
THE DIRECTOR, U.S. ARMS CONTROL AND  
DISARMAMENT AGENCY

SUBJECT: Establishment of a Coordinating Committee  
on Technology Transfer

We propose to establish a committee to serve as an informal group to deal with issues of shared concern among Executive Departments in technology transfer, especially those of intelligence, compliance, counterintelligence and foreign illegal exports, operational and coordinating matters as required and agreed to by participants. The coordinating committee would emphasize militarily sensitive or dual-use technologies. The new committee would replace the Ad Hoc Committee on Technology Transfer.

We would appreciate receiving the name of your representative at your early convenience. All participants should have an SI clearance. Please make initial contact with Janet Colson, Special Assistant to the President for National Security Affairs, at 456-2255.

FOR THE PRESIDENT:



Richard V. Allen  
Assistant to the President  
for National Security Affairs

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Review on September 11, 1987

SECRET Responses to Follow-up Questions on PipelineQuestions One and Five -- With the exception of West

Germany, all the major West European governments offer subsidized credits to support exports to the USSR, either through direct subsidies to commercial banks (the case in Italy) or by offering below-market rediscounting facilities at the national banks or treasury (the case in France). West Germany, on the other hand, only provides official guarantees for bank supplier credits extended to German exporters. In the past the difference between the market rate charged German exporters and the quoted rate offered the Soviets has been made up in the contract price of the goods exported -- in effect there has been little or no subsidy involved. Any risk of default would be borne by the German government through the loan guarantee program.

For the Yamburg project, the German financing package is likely to include a mix of below-market 8-percent notes and market-rate notes. According to our information, large-diameter pipe will be sold at market financing (about 12-13 percent) while equipment will be financed with credits of about 8.5 percent. Another 2 percent will be built into equipment prices. The remaining 2 to 3 percent will apparently be subsidized by the Bundesbank.

We know of no direct link tying gas prices to concessionary financing. As long as Rhurgas negotiates prices independent of equipment sales, negotiations on such an arrangement would be difficult to conclude. Outside Germany, however, where the negotiations involve national gas distribution companies and

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SECRET [REDACTED] 25X1

government subsidy mechanisms, an implicit tradeoff between discounted financing and gas pricing would be easier to arrange. [REDACTED] 25X1

Question Two -- We do not believe that Moscow is pressing Western Europe for an immediate decision on a second pipeline. The Soviets have told potential suppliers of pipeline equipment that only one line is to be built for operation in the mid-1980s. Moscow has said that construction of a second line could begin before 1985, but the Soviets are not yet seeking formal agreements on such a project. The only apparent linkage made by Moscow between the first and second lines is a promise to give prospective compressor suppliers entering the lowest bid on the single line a first crack at orders for the second line when it does come up for negotiation. We have received no real evidence that the West Europeans are being urged to sign up for more gas than the single pipeline could deliver. [REDACTED] 25X1

Question Three -- Although some agreements on equipment sales could come before decisions on the quantity and price of gas deliveries are worked out, most supplier contracts probably will not be signed until after these decisions. Moscow will prefer to know what its hard currency revenues from the project will be before it commits itself to specific quantities and prices of pipeline equipment and services. A general contractor for the compressor stations may be signed up before October, but the Soviets will reserve the right to approve subcontractural agreements. Contracts for pipe deliveries will be made annually. [REDACTED] 25X1

SECRET [REDACTED] 25X1

SECRET [REDACTED]

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Question Four -- The Soviets have held numerous discussions on gas prices and volumes with the West Europeans during the past few months, but hard bargaining on this issue has not yet occurred. Moscow reportedly is seeking a price in the range of \$5.50 - \$6.00 per million BTU, in line with the recently agreed price for Norwegian Statfjord gas. Although Moscow also is reported to have a bottom line price that approximates the price of residual oil (\$4.00 per million BTU), we have no evidence to indicate that the Soviets will be ready to compromise in the near future. They may be waiting for the outcome of Algerian price talks with France and Italy. [REDACTED]

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Question Six -- [REDACTED] indicated that GDF has been given the go-ahead to negotiate; we read little more into the cable than that. The French Government still has made no final decision on a new energy plan; although any plan will almost certainly project a fairly large volume of foreign gas requirements still to be contracted, Paris, and GDF, will remain undecided on the source of this additional gas until firm prices are discussed. [REDACTED]

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Question Seven -- Our understanding is that the Italian credit agreement is in principle only. At the moment, it is probably neither an open line of financing nor related to specific equipment purchases. Implementation of the agreement will depend on detailed equipment negotiations, further financing decisions, and final terms of the gas contracts themselves. [REDACTED]

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[REDACTED]

Question Eight -- There has been no progress thus far on

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SECRET [REDACTED] 25X1

negotiations for the large Japanese financial package for the Siberia-to-Western Europe gas pipeline. If no agreement on a large credit line can be reached, the Japanese could well extend all financing for the pipeline on a case-by-case basis such as the recently reported authorization of an Exim Bank loan of about \$360 million to cover the possible sale of compressors for eight of the pumping stations. Japanese exports of large diameter pipe, of pipelayers, and of other construction equipment for the proposed pipeline could be incorporated in annual sales and financing agreements. There is no way to tell for sure for which projects these goods are intended. [REDACTED] 25X1

Question Nine -- The West Europeans are aware of technical problems with Algerian LNG facilities, although we doubt that they are aware of the extent of technical difficulties facing Algeria in the production of the Hassi R'Mel gas field. None of the Algerian technical problems are insurmountable, however, and they could be quickly rectified if Algiers believes it has attained success in price negotiations or if it is forced to sell the gas to meet revenue needs. The main fear the West Europeans have is that Algeria may once again curtail gas deliveries over pricing or other disputes. [REDACTED] 25X1

Question Ten -- Support for the gas project in Western Europe appears to range from general acceptance of an apparently mutually beneficial business deal to strong support from exporters and governments. Some elements of the banking community remain skeptical of the profit potential, but practically no bankers appear truly concerned about increasing

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Soviet debt exposure. In addition, no important opposition political parties have come out firmly against the project. The main concerns are about gas volumes and prices:

- o To be competitive, the gas must be purchased at near the price of heavy fuel oil -- a price well below what the Soviets are currently trying to obtain.
- o The West Europeans generally are basing their projected gas needs on forecasts that are around two years old. The forecasts do not take into account the marked slowdown in West European gas demand over the past 18 months or so -- a trend that may well continue.

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The West Europeans regard the pipeline as their problem and have already demonstrated their resentment of US "interference." They see US opposition as driven by a self-centered and somewhat confused anti-Soviet campaign -- a campaign diluted considerably in West Europeans eyes by our decisions to lift the grain embargo and to approve the Caterpillar pipe-laying equipment contract. Further US pressure, particularly on political grounds, could thus be counterproductive. On the other hand, a well-defined, low-key campaign involving senior US Government officials and our Embassies in Western Europe could help stimulate, focus, and publicize the uncertainties concerning the market for Soviet gas in Europe. The fact that it is difficult to find enough room for the gas, that demand projections are likely to decline further, and that prices are softening also could be more pointedly discussed and more broadly publicized.

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With respect to alternative gas sources, the most relevant are Algeria, Nigeria, and Norway. A definite US withdrawal from the Algerian and Nigerian LNG markets would improve the West Europeans' bargaining positions with these countries. Although Algeria at least has not been regarded as a secure energy source, both that country and Nigeria will need the income from large additional gas sales badly, and will, in their own interests, have to accept reasonable terms. Beyond the 1980s, Norway is the only large nearby alternative supplier of additional gas for Western Europe. US influence on Norwegian gas policy is minimal, but the gas resources needed to fill West European needs are almost certainly there.

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